

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 PA-02 PRS-01 L-03 H-02 /109 W
-----221859Z 042256 /45

R 221810Z MAR 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6718
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL FRANKFURT

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DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING MARCH 21)

REF.: BONN 4447

1. CABINET APPROVAL OF 1978 TAX PACKAGE STILL PENDING:
FDP CABINET MEMBERS SO FAR HAVE FAILED TO AGREE TO THE
1978 TAX PACKAGE AS PROPOSED BY FINANCE MINISTER APEL.
THEY TOOK EXCEPTION TO A MINOR AND FINANCIALLY UN-
IMPORTANT ASPECT OF THE FINANCE MINISTER'S PLAN, I.E.,
CURTAILMENT OF EXEMPTIONS FOR THOSE ENTITLED TO NON-
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CONTRIBUTORY PENSIONS (MAINLY CIVIL SERVANTS). TAX
EXPERTS OF BOTH PARTIES ARE STILL SEEKING A COMPROMISE
SOLUTION. THE RATHER UNEXPECTED DELAY OF THE PACKAGE
IN THE CABINET TENDS TO IMPAIR CHANCES FOR THE
CONTEMPLATED TVA INCREASE EFFECTIVE 1978.

2. FOREIGN EXCHANGE MARKET:

THE DOLLAR WEAKENED SLIGHTLY IN CALM TRADING ON GERMAN
FOREX MARKETS. DURING THE REPORTING WEEK FRANKFURT
SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

FORWARD DOLLARS					
SPOT DOLLARS		(IN PCT. PER ANNUM)			
OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH	
MAR 14	2.3925	2.3926	2.3945	-0.6	-0.6
15	2.3950	2.3950	2.3950	-0.4	-0.6
16	2.3960	2.3958	2.3935	-0.2	-0.6
17	2.3925	2.3922	2.3915	-0.4	-0.6
18	2.3915	2.3893	2.3895	-0.5	-0.6
21	2.3890	2.3873	2.3888	-0.3	-0.5
22	2.3890	2.3890	N.A.	N.A.	N.A.

3. MONEY MARKET:

MONEY MARKET CONDITIONS REMAINED TIGHT IN THE FRG DURING
THE PAST WEEK DUE TO THE EFFECTS OF THE MARCH TAX DATE.
CALL MONEY RATES WERE AGAIN AT ABOUT THE LOMBARD RATE
OF 4.5 PERCENT. DURING THE REPORTING WEEK FRANKFURT
INTERBANK MONEY RATES DEVELOPED AS FOLLOWS:

CALL MONEY ONE-MONTH THREE-MONTH			
MAR 14	4.4-4.5	4.50	4.70
15	4.4-4.6	4.50	4.70
16	4.5-4.6	4.50	4.70
17	4.4-4.6	4.50	4.70

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18	4.45-4.55	4.55	4.70
21	4.5-4.6	4.55	4.70

4. ADJUSTMENT OF MONEY MARKET PAPER DISCOUNT RATES:

EFFECTIVE MARCH 21, THE BUNDESBANK REDUCED DISCOUNT
RATES FOR MONEY MARKET PAPER NOT RETURNABLE BEFORE
MATURITY TO THE BUNDESBANK BY 0.10 PERCENTAGE
POINTS. AT THE SAME TIME, IT REDUCED RATES ON SO-CALLED
FINANZIERUNGSSCHAETZE (ESSENTIALLY PAPER PURCHASED BY
FIRMS AND INDIVIDUALS IN ORDER TO COVER ANTICIPATED
TAX PAYMENTS) BY THE SAME RATE. THE BUNDESBANK STATED

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-----221900Z 042355 /45

R 221810Z MAR 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 6719
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
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THAT IT DID SO IN ORDER TO ADJUST THE DISCOUNT RATES TO
PREVAILING MARKET CONDITIONS. NEW RATES (FOR BOTH TYPES
OF PAPER) AND FOR COMPARISON PREVIOUS RATES ARE AS
FOLLOWS:

	MATURITY (MONTHS)			
	6	12	18	24
NEW NOMINAL RATE	4.15	4.50	4.90	5.25
YIELD TO MATURITY	4.24	4.71	5.20	5.70

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PREVIOUS NOMINAL RATE	4.25	4.60	5.00	5.35
YIELD TO MATURITY	4.34	4.82	5.31	5.82

5. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD MARCH 8 - 15 THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY DM 0.2 BILLION TO DM 86.0 BILLION. FOREIGN EXCHANGE HOLDINGS ROSE BY DM 85 MILLION WHILE FOREIGN LIABILITIES DECLINED BY ABOUT DM 120 MILLION.

6. BANK LIQUIDITY:

DURING THE SAME PERIOD BANK LIQUIDITY DECLINED BY DM 2.8 BILLION LARGELY DUE TO PAYMENTS FOR THE MAJOR MID-MARCH TAX DATE. THESE RECEIPTS ENABLED THE FEDERAL GOVERNMENT TO REDUCE ITS BORROWINGS FROM THE BUNDESBANK BY DM 0.7 BILLION TO ZERO AND TO INCREASE FEDERAL ASSETS HELD AT THE BUNDESBANK BY DM 1.2 BILLION TO DM 1.5 BILLION. BUNDESBANK ASSETS OF STATE GOVERNMENTS, ALSO DUE TO TAX RECEIPTS, INCREASED BY DM 2.3 BILLION TO DM 5.2 BILLION. ASSETS OF OTHER PUBLIC AUTHORITIES ROSE BY DM 0.6 BILLION. A DM 1.3 BILLION INCREASE IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK FURTHER REDUCED LIQUIDITY. FACTORS INCREASING LIQUIDITY WERE THE USUAL DECLINE IN CURRENCY IN CIRCULATION IN THE SECOND WEEK OF A MONTH (DM 1.1 BILLION) AND DM 0.6 BILLION OF RETURNS OF MONEY MARKET PAPER TO THE BUNDESBANK. OTHER FACTORS INCLUDING THE ABOVE INCREASE IN THE BUNDESBANK'S FOREIGN POSITION INCREASED LIQUIDITY BY DM 1.6 BILLION, NET.

BANKS FINANCED THE LIQUIDITY LOSS BY SELLING DM 2.3 BILLION OF BILLS TO THE BUNDESBANK UNDER THE SPECIAL REDISCOUNT FACILITY MADE AVAILABLE BY THE BUNDESBANK ON MARCH 10. (UNDER THIS FACILITY THE BUNDESBANK PURCHASES FROM BANKS BILLS ABOVE THEIR NORMAL UNCLASSIFIED

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REDISCOUNT QUOTA FOR A PERIOD OF 20 DAYS AND AT AN INTEREST RATE OF 4 PERCENT -- SEE BONN 4447.) THE BANKS ALSO INCREASED NORMAL REDISCOUNT BORROWINGS BY DM 0.9 BILLION. AT THE SAME TIME, THEY REDUCED LOMBARD BORROWINGS BY DM 0.4 BILLION TO DM 0.9 BILLION.

7. KLASSEN RETIREMENT:

THE BUNDESBANK HAS NOW CONFIRMED THAT PRESIDENT KLASSEN WILL STEP DOWN SHORTLY AFTER HIS 68TH BIRTHDAY LATE IN APRIL. NO OFFICIAL DECISION HAS YET BEEN ANNOUNCED CONCERNING HIS SUCCESSOR.

8. HESSELBACH TO LEAVE MANAGEMENT BOARD OF BANK FUER GEMEINWIRTSCHAFT:

ACCORDING TO PRESS ACCOUNTS, WALTER HESSELBACH, CHAIRMAN OF THE MANAGEMENT BOARD OF THE LABOR UNION OWNED BANK FUER GEMEINWIRTSCHAFT, WILL RETIRE FROM

THIS POSITION AROUND THE MIDDLE OF 1977. HE WILL,
HOWEVER, THEN ASSUME THE CHAIRMANSHIP OF BANKS' BOARD
OF DIRECTORS. THE VACANCY WILL BE FILLED BY TWO MEN
WHO ARE CURRENTLY SERVING ON THE MANAGEMENT BOARD,
DIETHER HOFFMANN AND THOMAS WEGSCHEIDER.

9. BOND MARKET:

DURING THE PERIOD UNDER REVIEW, THE MARKET FOR DOMESTIC
BONDS CONTINUED TO STRENGTHEN. DEALERS CREDIT THIS
MOVEMENT TO RECENT ACTIONS BY THE BUNDESBANK TO INCREASE
LIQUIDITY, E.G., THE SPECIAL REDISCOUNT FACILITY AND THE
INCREASE IN THE REGULAR REDISCOUNT QUOTA. GOVERNMENT
AND OTHER OFFICIAL DEBT ISSUES WERE PARTICULARLY
FAVORED AND IN THE COURSE OF THE WEEK PRICE INCREASES
ON SUCH ISSUES AMOUNTED TO ALMOST ONE PERCENTAGE POINT.
CURRENTLY THE AVERAGE YIELD TO MATURITY ON DEBT ISSUES
OF THE FEDERAL GOVERNMENT, FEDERAL RAILWAYS AND POSTAL
SERVICE STANDS AT 6.35 PERCENT. ACCORDING TO THE
PRESS, THE BUNDESBANK AND THE DEUTSCHE VERKEHRS-KREDIT-
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BANK, WHICH PERFORMS PRICE STABILIZATION OPERATIONS FOR RAILWAY ISSUES, SOLD ALMOST DM 200 MILLION OF BONDS DURING THE PAST WEEK IN ORDER TO SMOOTH THE PRICE INCREASES. AVERAGE CURRENT YIELDS ON DOMESTIC BONDS BASED ON INFORMATION IN THE GERMAN FINANCIAL PRESS ARE AS FOLLOWS:

REMAINING MATURITY (YEARS)	1	3	5	7	9	10
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YIELD TO MATURITY
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MARCH 19	4.90	6.15	6.60	6.90	7.02	7.15
MARCH 11	5.00	6.25	6.75	7.00	7.20	7.25

IN THE MARKET FOR FOREIGN DM BONDS THE FOLLOWING ISSUES HAVE BEEN ANNOUNCED: THE REPUBLIC OF ICELAND: DM 50 MILLION, COUPON 8 PERCENT, MATURITY 10 YEARS; THE GOVERNMENT OF AUSTRIA: DM 100 MILLION, COUPON 6.75 PERCENT, MATURITY 8 YEARS; A PRIVATE PLACEMENT BY THE DANISH BANK, AKTIESELSKAB: DM 50 MILLION, COUPON 7.25 PERCENT, 6 YEARS, ISSUE PRICE 100.

10. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

NON-SEASONALLY ADJUSTED FIGURES

 (PERCENT CHANGE FROM PREVIOUS YEAR'S
 LEVEL 1/)
 NOVEMBER DECEMBER JANUARY

IMPORT PRICES	3.9	3.3	4.1
EXPORT PRICES	3.4	3.1	2.2
INSOLVENCIES			
PERCENT CHANGE	-5.0	11.3	6.7
TOTAL	776	799	842

1/ UNLESS INDICATED OTHERWISE.

INDUSTRIAL PRODUCTION FIGURES FOR JANUARY ARE CONTAINED
IN BONN 4534. OFFICIAL INDUSTRIAL ORDER VOLUME DATA
FOR JANUARY ARE REPORTED SEPARATELY TODAY.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, FINANCIAL STABILITY, ECONOMIC CONDITIONS, ECONOMIC REPORTS, TAX REFORMS
Control Number: n/a
Copy: SINGLE
Sent Date: 22-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
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Format: TEL
From: BONN
Handling Restrictions: n/a
Image Path:
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Litigation History:
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Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
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Page Count: 7
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Reference: 77 BONN 4447
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 23-Sep-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3040127
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL DEVELOPMENTS (WEEK ENDING MARCH 21)
TAGS: EFIN, GE
To: STATE TRSY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/55fa34b4-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
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22 May 2009
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